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## Regional Policy Responses to Demographic Challenges and Opportunities

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Costin Octavian SORICI <sup>1</sup>

**Abstract:**

*In Europe, the trend towards greater life expectancy, often in good health, is primarily due to the unprecedented peace we have known for 60 years, the constant improvement in living conditions and the progress in medicine enabling us to live longer. This success partly explains the demographic perspective facing Europe of an ageing population with rising old age dependency ratios. Initially, discussion around this ageing trend concentrated on the sustainability of social security, pensions and health policies. However, it is increasingly recognized that an ageing population will require the adaptation of practically all major public policies, including education, employment and social affairs, transport, public services and infrastructures and urban planning, to address ageing and exploit the opportunities it presents.*

**Keywords:** *European demographic trends, cohesion policy.*

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### 1. Introduction

The Lisbon Strategy up to 2010 takes the broad European demographic trends into account. Indeed, those trends reinforce the essential objective of seeking to improve EU competitiveness by raising overall employment rates and employment rates of women and older workers, and by promoting innovation and higher-value-added economic activities in order to raise productivity. However, at regional level demographic structures and likely future patterns often vary greatly from the EU and national averages. In order to address the demographic challenges effectively and seize the opportunities presented there is a need for regionally adapted policy responses. EU Cohesion Policy is well suited to such a task, especially in those policy areas identified as EU Cohesion Policy priorities in the Community Strategic Guidelines 2007-2013 and in the specific funds regulations. In addition, the Commission Communication 'The demographic future of Europe -from challenge to opportunity'<sup>1</sup> sets out how the EU can constructively

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<sup>1</sup> PhD, "Ovidius" University of Constanta, Faculty of Economic Sciences, 1 University Alley, Constanta, Romania: tel: +40-241-511240; fax: +40-241-511240; email: [costing.sorici@pms.ro](mailto:costing.sorici@pms.ro)

respond within an overall strategy. While national governments will retain the policy prerogative in many policy areas affected by demographic trends, notably social and employment policies, many necessary reforms can be supported by EU Cohesion Policy.

## **2. Basic demographic trends in Europe**

During the last four decades, the population of the countries of today's EU-25 has grown from over 376 million (1960) to about 459 million (2005). Population change has two components: the so-called 'natural increase' (defined as the difference between the numbers of live births and deaths), and net migration (the difference between inward and outward migration). The strength and composition of EU-25 population growth has varied significantly over this period. There has been a sustained decline in the 'natural increase' since the early 1960s in contrast to the period before, while international migration has gained importance to become the major force of population growth from the beginning of the 1990s onwards. It is now widely understood that there is a strong demographic ageing of the EU population due to low fertility levels combined with longer, healthier lives and the fact that the baby boomers are approaching retirement age. In 2004-05, the EU-25 average life expectancy for men increased to 74 years and for women to 80 years (up from 69 and 76 respectively since 1980). In the EU-25, the total fertility rate has declined from a level of above 2.5 children in the early 1960s to around 1.5 in 1995 where it has remained ever since. That rate compares to the fertility rate of 2.1 children commonly accepted to be the replacement level. Interestingly enough, surveys show that most European couples aged 40 and over consider that it was mainly social and economic factors which prevented them from having as many children as they would have liked.

Trends in migration and immigration, compared to the predictability of 'natural change' in population, are more difficult to foresee and their effects can be more pronounced in a shorter period<sup>2</sup>. This has been true during the long history of European migration and immigration. Intra-European and intra-regional population movements slowed considerably in the mid 1970s as the demand for foreign workers fell following the first oil price shock in 1973. In the period since then, the improving economic performance of the poorer countries within the EU has contributed to lower migrant worker flows. However, the development of migration patterns has been complicated by 'quality of life' factors, including environment and cost-of-living issues countering the traditional rural-to-urban (intra-national) trends, and the rise of cross-national flows in urban areas, particularly amongst the higher qualified.

According to national statistics and Eurostat estimates, the total number of non-nationals living in the EU in 2004 was around 25 million, or just below 5.5% of the total population. In absolute terms, the largest numbers of foreign citizens reside

in France, Germany, Italy, Spain and the UK. In the period 2000-2004, the non-national population varied from less than 1% of the total population in Slovakia, to 39% in Luxembourg, while in the majority of countries the figure was between 2% and 8%. In the 24 years up to 2004, the percentage of foreign nationals either did not change significantly in most Member States or it increased (*see Figure 1*).

The most significant growth was observed in Luxembourg, followed by Spain, Cyprus, Greece, Ireland and Austria. Latvia was the only country registering a significant decrease.

In 2004, the number of citizens from the ten new Member States residing in the EU-15 was comparatively small at around 0.2% of the total EU-15 population, with the largest proportion in Germany. However, the loss of these workers has a higher incidence in their native countries where it is contributing to population reduction [see **Appendix 1**].

With ageing, the proportion of older people is increasing compared to the decreasing share of those of working age. If current trends prevail until 2050, a person of working age then might have to provide for up to twice as many retired people than is usual today. The regional differences are already visible in age-dependency indicators. We might see more dramatic developments in some regions than in others very soon.

While an ageing population is a challenge that all EU Member States are facing or will have to face, it has a stronger and more immediate impact for some countries and regions than others. In the face of very different existing patterns and likely trends, a range of major demographic phenomena need to be better understood to enable policy-makers to form robust proactive policies to meet the challenges and exploit the opportunities of a changing population.

Whilst, according to the average, the phenomenon of demographic ageing will become considerably more important in the coming decades, different European regions are currently facing very divergent developments in population. Some regions face 'natural increase' accompanied by positive net migration (i.e. Ireland), while others have experienced or will experience dramatic sustained population loss (i.e. the eastern *Länder* in Germany).<sup>2</sup>

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<sup>2</sup> *The example of the eastern Länder in Germany demonstrates that in some regions the demographic ageing of the population is already developing quite quickly. In the five Länder (excluding Berlin), there were over half a million fewer people on 7 January 2005 than on 7 January 2000, reflecting a total population loss of 3.7% of the population in five years. This movement is not homogeneous across the generations: the very young (aged up to 14 years) decreased by almost a quarter (-24%) while the population at retirement age increased by 18.2%, reflected in a rise in the old age dependency ratio from 23.5% to 29.2%*

### **3. Regional responses to ageing**

With the diversity of demographic structure and trends and the increasing importance of regional and local public authorities as policy initiators and service providers, it is vital that the effects of long-term population trends are taken into account in framing medium-term strategies. A number of regions have already been active and are at the forefront of strategic thinking and actions in relation to the demographic challenge. Under existing EU programmes, a number of projects have addressed aspects of demographic change. These include successful initiatives to address depopulation in urban, rural and sparsely populated areas, positive migration initiatives, reinforcing non discrimination and gender equality, and making regions more attractive places to live.

Even in regions which believe they will suffer 'inevitable' population reduction - arising, for instance, from the delayed effects of urbanization - proactive thinking in responding to depopulation and ageing can have an important effect in securing quality of life and mitigating the effects of these likely trends on the remaining population. Indeed, the experience of some regions is that proactive, integrated policies can begin to redress patterns which were previously considered irreversible.

The Union's Cohesion Policy provides Member States with a valuable tool to adapt regional and national economies in the context of ageing. The Community Strategic Guidelines for EU Cohesion Policy identify three overarching guidelines in line with the Lisbon Agenda:

- making Europe and its regions more attractive places to invest and work;
- improving knowledge and innovation for growth;
- more and better jobs.

The regulations governing the Cohesion Policy funds (ERDF, ESF, and Cohesion Fund) further develop the priorities to be addressed in the mainstream convergence and competitive programmes. Ageing is specifically mentioned in particular in relation to several priorities under the guideline: More and better jobs. In any event, the successful achievement of the objectives identified in the Community Strategic Guidelines can only be guaranteed in the medium and long term by ensuring that the underlying demographic trends are factored into national and regional strategic planning, if policies are adapted to regional and local needs, and if the opportunities presented are exploited.

In conclusion, it is clear that as an underlying societal trend demographic change requires a broad range of policy responses. EU Cohesion Policy - promoting integrated strategic planning to address development objectives through partnership working - allows regional responses to be tailored to the specific circumstances faced by each region with financial support in the form of a multi-annual budget.

#### **4. The demographic future of Europe - from challenge to opportunity**

Most measures to respond to demographic change are the responsibility of the Member States - central, regional and local government; many involve the social partners and civil society organizations. Nevertheless, the European Union can play a useful role in facilitating the process of adapting to change. Demographic change is a shared concern across the EU, as was made clear by the heads of state and government who, at the 2005 European Summit in Hampton Court (UK), studied the future of Europe in the context of globalization. Over the last year, the issue has been discussed extensively within the European Commission on the basis of the consultation following the 2005 Green Paper, hearings with experts, and extensive research work carried out with the support of the European Parliament.

The conclusions drawn from this intense activity can be found in the recent Communication 'The demographic future of Europe - from challenge to opportunity'<sup>4</sup>. The message is that ageing is a challenge which we can meet if we exploit the opportunities that are available to us, particularly over the next ten years. The strategy covering five key areas in which to take action [see Appendix 2]:

**a. Europe can do more to promote its demographic renewal.** This implies creating conditions enabling all Europeans to realize their desire to have a family. Having children should be an option for everyone and requires, in particular, being able to reconcile work, family and private life. Far too often, women still have to choose between a job and a family. The Commission, at the same time as adopting the Communication on demography, has consulted the social partners on further measures that should be taken to facilitate this reconciliation, notably in the areas of parental leave and work organization,

**b. Europe must raise employment levels further.** We need to increase the activity rates for women, young people and the elderly in order to achieve a better balance between the active and the retired. This is already a priority under the Lisbon Strategy. In particular, we must reduce early retirement from the labour market and develop "active ageing" strategies, including within enterprises. This requires investing in training and high-quality working conditions during the entire life cycle.

**c. We need a Europe that is more productive and competitive** Future economic growth will depend increasingly on productivity gains and our capacity for innovation, and thus on investment in training and research and development. It will also depend on the degree to which enterprises can exploit new market opportunities associated with the needs of an older population, comprising very active elderly consumers who may be very demanding, but also an increasing number of the very old who will need social and health care. Our economies and societies must prepare for these new demand patterns by developing new and better goods and services and by training people for the new jobs that come with them.

**d. Europe needs to prepare to receive and integrate migrants.**

Immigration will not prevent ageing and the challenges that come with it. But as working age populations decline, increasing labour market needs for migrants can be expected. The question is not whether to have immigration or not, but whether Europe will be able to manage immigration well, in the interests of labour markets, of the immigrants themselves and of their countries of origin.

**e. Finally, Europe needs sound public finances.** Ageing will require increased expenditure on pensions, health and long-term care. Only if social protection is based on sustainable funding can we expect it to deliver adequate benefits in the long run. Such sustainable funding will come not only from public budgets - savings and private insurance will also have a role to play in this context.

**APPENDIX 1:**

**Regional effects of demographic change:** *the main recent historic trends identified by Eurostat<sup>3</sup> at national and regional level can be summarized as follows:*

*-In the north-east of the European Union the population is decreasing. Most affected by this decline are eastern Germany, Poland, the Czech Republic, Slovakia and Hungary, and to the north the three Baltic States, and parts of Sweden and Finland.*

*-In many EU regions, since the start of the new century more people have died than have been born. The resulting negative 'natural population change' is widespread and the pattern is less pronounced than for the total population change. This negative pattern predominates in Germany, the Czech Republic, Slovakia, Hungary, Slovenia and adjacent regions, as well as the Baltic States, Sweden in the north and Greece in the south.*

*- Ireland, France, the three Benelux countries and Denmark are mainly experiencing a 'natural increase' in the population.*

*- In some regions, a negative 'natural change' has been compensated by a positive net migration. This is most conspicuous in western Germany, eastern Austria, the north of Italy, and Slovenia, as well as the south of Sweden and regions in Spain, Greece and the United Kingdom.*

*-The opposite is much rarer: in only a few regions (namely in the north of Poland), a positive 'natural change' has been offset by a negative net migration.*

**APPENDIX 2:**

**Community Strategic Guidelines for Cohesion**

Adopted by the Council on 6 October 2006<sup>8</sup>, the Community Strategic Guidelines for Cohesion contain the principles and priorities of Cohesion Policy and suggest ways the European regions can take full advantage of the funds and instruments available for national and regional aid programmes between-2007 and 2013. The guidelines supplement the specific regulations on the funds and seek to provide a

balance between the twin objectives of the growth and jobs agenda and territorial cohesion, and to help Member States when preparing their national and regional strategic priorities for that period. In this respect programmes co-financed through cohesion instruments should seek to target resources on the following three priorities:

- **improving the attractiveness of Member States, regions and cities** by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential
- **encouraging innovation, entrepreneurship and the growth of the knowledge economy** by research and innovation capacities, including new information and communication technologies; and
- **creating more and better jobs** by attracting more people into employment or entrepreneurial activity, improving adaptability of workers and enterprises, and increasing investment in human capital.

Addressing the demographic challenge should not necessarily be seen as a separate priority but rather as a challenge to be met by regional policy in taking account of the ageing labor force and populations general. Due to declining or low population density, certain regions and areas are more affected than others, or simply face threats and opportunities earlier. For example, demographic effects will require a costly restructuring of social service facilities and care services for older people; which will have knock-on effects for business. Building upon the potential of the regions, with the support of EU Cohesion Policy, the challenges of rapid economic and social restructuring and demographic ageing could be met by:

- increasing the competitiveness of regional economies;
- adapting existing infrastructure and services to changing needs
- anticipating bottlenecks in the labor market and skills requirements;
- increasing occupational and geographical mobility;
- maintaining a healthy workforce

Following the adoption of the Community Strategic Guidelines for Cohesion, the EU framework was completed within which presentation of the National Strategic Reference Frameworks and future programmes should take place.

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**Figure 1: Old and young age dependency**

